

HIAWATHA COMMUNITY BEHAVIORAL
HEALTH AUTHORITY

FINANCIAL STATEMENTS

Fiscal Year Ended September 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hiawatha Community Behavioral Health Authori	County Schoolcraft
Audit Date 9/30/04	Opinion Date 1/25/05	Date Accountant Report Submitted to State: 2/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

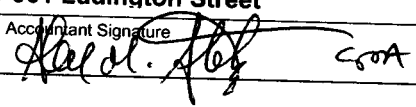
Certified Public Accountant (Firm Name) Anderson, Tackman & Co., PLC			
Street Address 901 Ludington Street		City Escanaba	State MI
Accountant Signature 		ZIP 49829	Date 2/21/05

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ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Hiawatha Community Behavioral Health Authority
Manistique, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hiawatha Community Behavioral Health Authority, as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Hiawatha Community Behavioral Health Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hiawatha Community Behavioral Health Authority, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-5 and 27 through 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hiawatha Community Behavioral
Health Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hiawatha Community Behavioral Health Authority's basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Andersen, Tackman & Company P.C.
Certified Public Accountants

January 25, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Hiawatha Behavioral Health Authority's (HBH) annual audit report presents our discussion and analysis of HBH's financial performance during the year ended September 30, 2004. It is to be read in conjunction with HBH's audited financial statements, which follow. This letter is a requirement of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending September 30, 2004.

The Hiawatha Behavioral Health Authority is a Community Mental Health Center (CMHC) which serves Chippewa, Mackinac and Schoolcraft counties in the Upper Peninsula of Michigan by providing mental health services to developmentally disabled children and adults, severely mentally ill adults, and severely emotionally disturbed children. We also provide 24 hour mental health crisis services in our three counties (see note A from the audited financial statements for additional background).

Overview of Financial Statements

Hiawatha Behavioral Health has three different fund types:

The **Governmental Fund** (general fund) accounts for all financial resources of HBH except those required to be accounted for in another fund.

The **Proprietary Fund** accounts for HBH internal service funds. There are two internal service funds, the fixed asset replacement fund and the risk retention fund. The fixed asset replacement fund is designed to account for the acquisition and operation of the organization's capital assets. The risk retention fund is designed to account for a partially self-insured liability insurance program.

The **Fiduciary Fund** is used to account for assets held by HBH in a trustee capacity. The organization's sick and vacation pay is accounted for in this fund.

Balance Sheet

Total Assets for HBH decreased \$87,741 (\$9,980,377 less \$10,068,118). These assets are made up of Governmental Fund net assets which increased \$16,570 (\$2,263,770 less \$2,247,200) and Proprietary Fund net assets which decreased \$104,311 (\$7,716,607 less \$7,820,918). This is a relatively small change in our total assets and is most likely due to timing issues with cash and receivables.

Total Liabilities for HBH decreased \$72,623 (\$4,935,058 less \$5,007,681) primarily due to our continued payment on debt (vehicles and buildings). These liabilities are made up of Governmental Fund total liabilities which decreased \$10,445 (\$1,293,959 less \$1,304,404) and Proprietary Fund total liabilities which decreased \$62,178 (\$3,641,099 less \$3,703,277).

Proprietary Fund liabilities contain current liabilities and long-term liabilities. Current liabilities decreased \$5,270 (\$58,875 less \$64,145) and long-term liabilities decreased \$56,908 (\$3,582,224 less \$3,639,132).

Net Assets for HBH decreased \$15,118 (\$5,060,437 less \$5,045,319). This is simply a function of the changes with total assets and total liabilities discussed above.

The organization's balance sheet is also reconciled to show net assets equal to the combination of the **Fund Balance** from the governmental fund (which increased \$27,015 with a balance at 9/30/04 of \$969,811) and the organization's **Internal Service Funds** from the proprietary fund (which decreased \$42,133 with a balance at 9/30/04 of \$4,075,508). This is shown on page 6 of the audited financial statements. As a matter of perspective, though our fund balance appears healthy, it would only operate our agency for approximately 3.38 weeks (\$969,811 / \$14,907,834 (FY 2005 budgeted expenditures) x 52 weeks per year).

Income Statement

Revenues Compared to Prior Year

Our revenues for fiscal year 2004 were \$14,568,345, an increase of \$446,782 over last fiscal year's \$14,121,563 figure. There are three main areas where trends should be discussed.

Department of Community Health (DCH) General Funds (GF) revenue line item was \$2,242,880 for FY 2003. Though FY 2004's figure shows a decline to \$2,158,651, we must add the Adult Benefit Waiver (ABW) revenue of \$202,175 to get an appropriate comparison. The ABW program was funded by DCH through a reduction of our GF funds in FY 2004. With this we find our GF actually went up by \$117,946. This is a trend which is not expected to continue.

The State of Michigan is struggling to pull out of an economic recession and its general fund budget continues to be in the red. The State has not cut our GF funding thus far, but unless the state economy turns around quickly, our GF will be reduced in the future. The State has attempted to draw additional Federal dollars whenever possible. By redirecting State general funds to programs which have Federal participation, the State has been able to improve their budget situation. The ABW is an example of where this has been done. Though it appears we gained by this exercise last year, it is seldom organizations like ours benefit from these changes long term.

Medicaid revenue increased \$356,881 (\$10,461,938 less \$10,105,057). We believe this is due to increased numbers of Medicaid lives in our service area for which we are paid. But confirming this has been difficult. There is general confusion at the State/regional level regarding the exact numbers. We continue to press those in charge of the Medicaid data for these figures. The trend of increased Medicaid lives in our counties is not expected to continue. Again, the State of Michigan's budget issues come into play. The State is currently conducting an actuarial study of its Medicaid population to determine the mental health costs of the population. Regardless of what they find, they must still balance the State's budget. There has been discussion of how the State would reduce Medicaid costs should the actuarial report show increased mental health costs. It appears the State has the ability to reduce the number of Habilitation Waiver slots it currently has in place with the Community Mental Health organizations. These slots are part of our Medicaid revenues. Therefore, if the State's economic situation does not improve, this revenue source will decrease.

Third Party Insurance revenue decreased \$81,012 (\$47,300 less \$128,312) due to our change in eligibility requirements.

Revenues Compared to Budget

Block Grants were under budget by \$50,135. There were a couple grants which expired at the end of FY 2003 which we had hoped would be renewed but were not.

Department of Community Health (General Funds) was under budget \$233,693. We were able to carry forward \$106,893 to FY 2005, therefore our recognized GF revenue is down by this figure. There were also some reductions to GF from the State (in addition to the ABW move) to allow them to balance their budget.

Medicaid was under budget \$449,001. We were able to have a savings of \$253,636 and hope to be able to carry this forward to FY 2005 (this requires payer approval), therefore our recognized Medicaid revenue is down by this figure.

Other Earned Contracts was under budget \$16,264. We were able to carry much of this funding forward to FY 2005 resulting in our recognized revenue being down in FY 2004.

Expenditures

Our expenditures for fiscal year 2004 were \$14,541,330, an increase of \$830,317 over last fiscal year's \$13,711,013 figure. There are numerous areas to be discussed.

Salaries and Wages increased \$383,717 (\$5,330,056 less \$4,946,339). Along with the traditional annual wage increases, there were a number of clinical positions which were added to better serve our consumers.

Unemployment Compensation increased \$26,781 (\$34,728 less \$7,947) due to increased claims for FY 2004. HBH is a direct reimbursement employer with the Michigan Employment Securities Commission (MESC).

Professional Services increased \$98,387 (\$386,028 less \$287,641) due to additional clinical professional service providers (occupational therapists, physical therapist, speech therapists, psychologists) coming online, which allowed us to better serve our consumers.

Staff Travel increased \$21,688 (\$153,222 less \$131,534) as a result of increased community based services as opposed to clinic based services.

Insurance – Liability and Other increased \$81,998 (\$96,639 less \$14,641). This is due to a one time change to our coverage with the Michigan Municipal Risk Management Authority (MMRMA). We had been participating in a group program with the other Upper Peninsula CMHCs. When two of the participants pulled out of the arrangement, we had to enter into an individual policy with MMRMA. This led to increased policy costs plus an arrangement to cover HBH's outstanding claims from our time with the UP partnership.

Membership Dues / Subscriptions increased \$21,552 (\$36,495 less \$14,943). This was due to two years dues being paid in FY 2004 (2003 and 2004) and is primarily a timing issue. There were also miscellaneous charges to the line item for prevention programs in Chippewa and Mackinac counties and a payment to MMRMA as part of the insurance issue above. These three bills could have been charged to other line items.

Capital Outlay decreased \$69,348 (\$26,219 less \$95,567) due to our move into new buildings in Chippewa and Mackinac counties in FY 2003.

Inpatient increased \$153,352 (\$670,152 less \$516,800) due to a write down of our inpatient accounts payable in FY 2003.

MIA Residential Type A increased \$124,747 (\$484,576 less 359,829) due to the increased demand for residential settings for our mentally ill adult consumers.

Rental of Agency Assets increased \$130,260 (\$918,167 less \$787,907) as a result of additional computers, vehicles, buildings and equipment which came on line during the fiscal year. This is expected to only show slight increases in future years.

Local Match Expense decreased \$99,732 (\$243,128 less \$342,860). This is the funding we provide to draw additional Federal Medicaid funds. There was a decrease last year due to a FY 2003 adjusting entry by our auditors to correct retained earnings balances.

Expenditures Compared to Budget

Health Insurance was under budget \$216,498 as a result of our annual increase from Blue Cross / Blue Shield coming in much lower than anticipated.

Retirement was over budget \$54,467 as a result of new MERS plans being adopted by the Board of Directors for staff.

Unemployment Compensation was over budget \$13,694 due to a number of employees who left the agency without having secured employment elsewhere.

Operating Expenses were under budget \$120,888 due to a large reclassification of expenditures after the last budget amendment.

Legal and Auditing was over budget \$16,904 as a result of a lawsuit filed against HBH and employment issues requiring legal assistance.

Staff Travel was over budget \$27,310 – see above

Insurance – Liability and Other was over budget \$75,865 – see above

Staff Development / Training was over budget \$12,233 due to an increased emphasis on staff training as prescribed by the HBH Board of Directors.

Membership Dues / Subscriptions were over budget \$18,492 – see above

Respite Services were under budget \$58,771 due to a change in eligibility requirements and reduced requests for services.

Inpatient was under budget \$302,683 due to efforts by HBH staff managing cases proactively and aggressively to reduce the incidence of hospitalizations and keep hospital stays as clinically appropriate as possible.

Residential Homes (HCBW / MIA Residential Type A / NTI) were over budget \$262,899 due to a number of consumers being placed in costly downstate homes.

Other Program Specific / DD Residential Type A was under budget \$152,651 due to the previous line item explanation.

Preparations for the Future

HBH has prepared itself for the future as well as an entity highly dependent on public funds is able to.

Assets – HBH recently completed its facilities acquisition plan and owns all strategically important facilities which are necessary to carry out its programs well into the future. HBH has also established a fixed asset replacement fund which will enable the organization to purchase technology, vehicles and equipment and maintain its buildings. This too will enable HBH to continue to carry out its programs.

Fund Balance - As discussed above, though HBH's fund balance appears healthy with a balance of \$969,811, when viewed in perspective this would only allow the organization to operate for 3.38 weeks should all other revenues cease to exist. Our auditors have recommended we have a fund balance of ten to fifteen percent of our annual budget. This would be from \$1,490,783 to \$2,236,175 based on our FY 2005 budget. We have been adding slowly to our fund balance, but are well below these recommended levels.

Revenues - We are very dependant on public funds. Medicaid was approximately 71.8% of our revenue for FY 2004. General Funds were approximately 16.2%. There are a couple revenue trends worth mentioning. The State, in an effort to balance their current budget shortfall, is converting many General Fund services to Medicaid to garner additional Federal participation. Also, the State has been utilizing general fund dollars taken from CMHCs to fund new state medical insurance programs. It appears our general funds will continue to dwindle. We continue to seek out grants and other revenue sources, but with 88% of our budget essentially coming from the State, it is extremely difficult to sufficiently diversify our revenues.

There are a number of factors in our favor when it comes to our contracts with the State. The Medicaid contract between the State and Center for Medicare/Medicaid Services (Federal) is under a waiver which requires the State to have certified providers to deliver mental health services in the communities. We are the only certified provider in our three counties. The cost to obtain certification is a significant barrier to entry for other organizations. We also have been serving our counties since the 1960's. We know the territory.

Expenditures - We continually monitor expenditures. Our salary and fringe benefit packages are compared against our peers through state and local surveys. We continue to negotiate contracts with our various providers to keep costs in check, particularly in the high cost areas of psychiatric hospitalizations and long-term consumer residential care. A number of years ago we established internal service funds for equipment, technology, buildings and vehicles. This enables us to access the necessary tools to carry out our services.

We have been able to keep up with State requirements on data through the use of technology and are preparing to implement a computerized clinical record which will allow us to better serve our consumers. We also have eliminated nearly all rental payments from our expenditures. It was a long-term goal of our Board of Directors to build equity rather than to continue to make exorbitant rental payments. We have reduced our costs in this area. These long-term approaches will greatly increase our ability to serve our consumers in the future.

Our Horizon

Things look very positive for the future of HBH. We have positioned ourselves to be a cutting edge provider of services through our use of psychopharmacology, person centered planning, utilization management protocols and other clinical processes. We are using technology to further enhance our ability to deliver these services and have worked to put ourselves in financial position to remain strong as a service provider. There will always be areas beyond our control such as Federal/State/Local budget shortfalls, political pressures and changes dictated to us by payors to name a few. All in all, the future for HBH looks very positive.

Contacting Hiawatha Behavioral Health Authority's Financial Management

This financial report is designed to provide citizens, taxpayers, consumers, board members, staff, creditors and other interested parties with a general overview of HBH's finances and to demonstrate HBH's accountability for the revenues received and expenditures incurred. If you have any questions regarding this report or need additional information, please contact HBH's Controller at 125 North Lake Street, Manistique, MI 49854.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF NET ASSETS

September 30, 2004

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and equivalents:	
On hand	
In bank	\$ 3,530
Receivables	2,760,519
Due from state	364,527
Prepaid expenses	88,507
	<u>139,844</u>
TOTAL CURRENT ASSETS	<u>3,356,927</u>
Noncurrent assets:	
Fixed assets	8,360,930
Accumulated depreciation	<u>(1,737,480)</u>
NET NONCURRENT ASSETS	<u>6,623,450</u>
TOTAL ASSETS	<u>\$ 9,980,377</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 448,174
Accrued payroll and fringes	250,327
Due to community hospitals	93,207
Due to state	99,543
Deferred revenue	362,009
Due to other funds	35,173
Current maturities on notes payable	<u>64,401</u>
TOTAL CURRENT LIABILITIES	<u>1,352,834</u>
Noncurrent liabilities:	
Notes payable	3,646,625
Less: Current maturities	<u>(64,401)</u>
NET NONCURRENT LIABILITIES	<u>3,582,224</u>
TOTAL LIABILITIES	<u>\$ 4,935,058</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 2,976,825
Unrestricted - General	971,278
- Risk Retention	920,414
- Fixed Asset replacement	<u>176,802</u>
	<u>\$ 5,045,319</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF ACTIVITIES

For the year ended September 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	
Functions/Programs:					
Governmental activities:					
Community services	\$14,357,753	\$ 11,617,752	\$2,893,333	\$ -	\$ 153,332
Interest on long-term debt	<u>235,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(235,643)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$14,593,396</u>	<u>\$ 11,617,752</u>	<u>\$2,893,333</u>	<u>\$ -</u>	<u>(82,311)</u>
General revenues:					
Unrestricted investment earnings					58,912
Unrestricted contributions					4,943
Miscellaneous					<u>3,338</u>
TOTAL GENERAL REVENUES					<u>67,193</u>
Changes in net assets					(15,118)
Net assets, beginning of year					<u>5,060,437</u>
NET ASSETS, END OF YEAR					<u>\$ 5,045,319</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND
BALANCE SHEET

September 30, 2004

General

ASSETS

Assets:	
Cash:	
On hand	
In bank	\$ 3,530
Receivables	1,667,362
Due from other governmental agencies:	364,527
State	
Prepaid expenditures	88,507
	<u>139,844</u>
TOTAL ASSETS	<u>\$ 2,263,770</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$ 448,174
Accrued payroll and fringes	250,327
Due to community hospitals	93,207
Due to other funds	40,699
Due to governmental agencies:	
State	99,543
Deferred revenue	<u>362,009</u>
TOTAL LIABILITIES	1,293,959
Fund equity:	
Fund balance	<u>969,811</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,263,770</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND
RECONCILIATION OF THE BALANCE SHEET
OF THE STATEMENT OF NET ASSETS

September 30, 2004

Total fund balance for the governmental fund \$ 969,811

Total net assets reported for governmental activities
in the statement of net assets is different because:

Internal service funds are used by the Authority to
charge asset and risk costs to the governmental fund.
The assets and liabilities of the internal service
funds are included in the governmental activities
in the Statement of Net Assets

4,075,508

Total net assets of governmental activities \$ 5,045,319

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

For the year ended September 30, 2004

	<u>General Fund</u>
REVENUES:	
Federal sources	
State sources	\$ 467,325
Local sources	2,426,008
Charges for service	287,234
Other sources	11,091,727
	<u>296,051</u>
 TOTAL REVENUES	 14,568,345
 EXPENDITURES:	
Community services	
	<u>14,541,330</u>
 NET CHANGE IN FUND BALANCE	 27,015
Fund balance, beginning of year	<u>942,796</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 969,811</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GOVERNMENTAL FUND
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the year ended September 30, 2004

Net changes in fund balance - governmental fund	\$ 27,015
The change in net assets reported for governmental activities in the statement of activities is different because:	
Internal service funds are used by the Authority to charge asset and risk costs to the governmental fund. This is the net revenue of the internal service funds that is reported with the governmental activities.	<u>(42,133)</u>
Changes in net assets of governmental activities.	<u>\$ (15,118)</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

September 30, 2004

Internal
Service
Funds

ASSETS:

Current assets:

Cash and equivalents

Due from other funds

\$ 1,093,157
5,526

TOTAL CURRENT ASSETS

1,098,683

Fixed assets, net of \$1,737,480
accumulated depreciation

6,623,450

TOTAL ASSETS

\$ 7,722,133

LIABILITIES AND NET ASSETS:

Current liabilities:

Current maturities on notes payable

\$ 64,401

Long-term liabilities:

Notes payable

Less: Current maturities

3,646,625

(64,401)

NET LONG-TERM LIABILITIES

3,582,224

TOTAL LIABILITIES

3,646,625

Net assets:

Invested in capital assets, net of
related debt

Unrestricted

2,976,825

1,098,683

TOTAL NET ASSETS

4,075,508

TOTAL LIABILITIES AND NET ASSETS

\$ 7,722,133

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS

For the year ended September 30, 2004

	<u>Internal Service Funds</u>
OPERATING REVENUES:	
Asset rental	\$ 918,167
Risk revenue	<u>4,059</u>
TOTAL OPERATING REVENUES	<u>922,226</u>
OPERATING EXPENSES:	
Building repairs and maintenance	53,164
Building supplies	6,418
Building contracted services	1,500
Vehicle repairs and maintenance	60,103
Vehicle operating expenses	43,498
Insurance	96,399
Equipment repairs and maintenance	37,622
Provision for depreciation	<u>454,451</u>
TOTAL OPERATING EXPENSES	<u>753,155</u>
OPERATING INCOME	<u>169,071</u>
NON-OPERATING REVENUES (EXPENSES):	
Reimbursements	14,506
Interest income	9,933
Interest expense	<u>(235,643)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(211,204)</u>
NET LOSS	(42,133)
Net assets, beginning of year	<u>4,117,641</u>
NET ASSETS, END OF YEAR	<u>\$ 4,075,508</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

For the year ended September 30, 2004

	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received for rent and services	\$ 919,133
Cash payments to suppliers for goods and services	<u>(298,704)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>620,429</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Loan payments	(294,728)
Acquisition & construction of fixed assets	(194,686)
Capital reimbursement received	<u>14,506</u>
	<u>(474,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	<u>9,933</u>
NET CASH INCREASE IN CASH AND EQUIVALENTS	155,454
Cash and equivalents, beginning of year	<u>937,703</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 1,093,157</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 169,071
Depreciation	454,451
(Increase) decrease in interfund receivable	<u>(3,093)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 602,429</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

STATEMENT OF FIDUCIARY NET ASSETS

September 30, 2004

	<u>Agency Funds</u>
ASSETS:	
Cash and equivalents	\$ 287,186
Due from other funds	<u>35,173</u>
TOTAL ASSETS	<u>\$ 322,359</u>
LIABILITIES:	
Accrued sick and vacation pay	<u>\$ 322,359</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hiawatha Community Behavioral Health Authority conform to generally accepted accounting principles as applicable to mental health authorities. The following is a summary of the more significant policies:

- (1) Background - The Hiawatha Community Behavioral Health Authority was formed as a merger of the Schoolcraft County Community Mental Health Services Board and the Eastern Upper Peninsula Mental Health Board. This merger was effective October 1, 1997. The Hiawatha Community Behavioral Health Authority is organized as an authority as provided for in Section 330.1205 of the Mental Health Code, Public Act 258 of 1974. In accordance with the agreement each previous entity transferred all existing assets and contracts to the new authority.

The Hiawatha Community Behavioral Health Authority's Board of Directors are appointed by the respective County boards of commissioners, and consists of four members from each County. The Hiawatha Community Behavioral Health Authority provides a wide variety of services to the mentally ill and developmentally disabled in the Counties of Chippewa, Mackinac and Schoolcraft.

- (2) Reporting Entity - Because the Hiawatha Community Behavioral Health Authority is a separate authority under the Mental Health Code and is governed by a board composed of members from each of the three counties it serves, it has been defined as a jointly governed organization under the provisions of GASB Statement 14. No County board has responsibility over the Hiawatha Community Behavioral Health Authority nor does any County board have an on-going financial interest in the Authority as defined by GASB Statement 14. As such, the Authority is not a component unit of any of the three Counties it serves.

- (3) Basis of Presentation - The Authority adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, which requires the financial statement presentation as described below.

Government-Wide Financial Statements - The Statement of Net Assets and the Statement of Activities display information about the Authority as a whole. They include all funds of the Authority except for the fiduciary funds.

Fund Financial Statements - The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and enterprise categories. The General Fund is always considered a major fund and the

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

remaining funds of the Authority are considered major if they meet the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The Authority has only one major fund based on the above criteria, and that is the General Fund.

The funds of the Authority are described below:

GOVERNMENTAL FUND TYPES

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

PROPRIETARY FUND TYPE

Internal Service Funds - Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the Authority, on a cost-reimbursement or estimate of cost basis. The Risk Retention Fund is an Internal Service Fund designed to account for a partially self-insured liability insurance program. The Fixed Asset Replacement Fund is an internal service fund designed to account for the acquisition and operation of the Agency's capital assets.

FIDUCIARY FUND TYPE

Agency Fund - Agency Funds are used to account for assets held by the Authority in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

- (4) Basis of Accounting - Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority maintains its accounting records for all funds on the accrual basis of accounting. Under the accrual basis, revenues are recorded when they are earned, and expenditures are recognized when incurred.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (5) Fixed Assets - All fixed assets owned by the Authority are recorded in the Fixed Asset Replacement Fund. These assets were recorded at cost or fair market value at date of gift. Provisions for depreciation of fixed assets are computed on the straight-line method over the estimated useful lives of the assets.

The range of estimated useful lives, by class, is as follows:

Buildings	40 years
Equipment	7 years
Vehicles	5 years
Technology equipment	5-10 years

- (6) Cash and Equivalents - The Authority's cash and equivalents are considered to be cash on hand, demand deposits and short-term investments.
- (7) Deferred Revenues - The Authority has recorded as deferred revenues cash that has been received prior to it being earned.
- (8) Equity Classification

Government-wide financial statements - Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - This component consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets - This component consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements - Governmental fund equity is classified as fund balance.

- (9) Revenues - Government-wide Financial Statements - In the government-wide Statement of Activities revenues are segregated by activity (governmental or business type) and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues that do not meet the criteria of program

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

revenues and include revenues such as property taxes, state revenue sharing payments and interest earnings.

Fund Financial Statements - In the government fund statements revenues are reported by source, such as federal, state and local sources. Revenues consist of general-purpose revenues and restricted revenues. General-purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available only for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general-purpose and restricted revenues are available for use, it is the Authority's policy to use restricted resources first.

- (10) Expenses/Expenditures - Government-wide Financial Statements - In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business type) and are classified by function.

Fund Financial Statements - In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and non-operating and are further classified by function, such as salaries, supplies and contracted services.

- (11) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH

Cash balances are invested, to the extent available, in bank savings, checking and certificate of deposit accounts and other authorized investments. Earnings from these investments are recorded in the individual funds as operating revenue.

The composition of cash as reported on the combined balance sheet is presented below:

Imprest Cash	\$ 3,530
Certificates of deposit	176,278
Checking and savings account deposits	<u>2,584,241</u>
	<u>\$2,764,049</u>

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B - CASH (continued)

Statutes authorize the Authority to deposit and invest in the following:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. Investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE B - CASH (continued)

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

All deposits are carried at cost, which approximates market value, and are in accordance with statutory authority. The risk disclosures for the Authority's cash deposits are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 485,011	\$ 480,535
Uninsured	<u>2,451,513</u>	<u>2,279,984</u>
TOTAL	<u>\$2,936,524</u>	<u>\$2,760,519</u>

NOTE C - FIXED ASSETS

The composition and changes in fixed assets are as follows:

	<u>Balance 09/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 09/30/04</u>
Buildings	\$6,083,155	\$ -	\$ -	\$6,083,155
Equipment	451,590	21,806	1,944	471,452
Vehicles	713,734	49,770	29,446	734,058
Technology equipment	<u>949,155</u>	<u>123,110</u>	<u>-</u>	<u>1,072,265</u>
	8,197,634	194,686	31,390	8,360,930
Accumulated depreciation	<u>(1,314,419)</u>	<u>(454,451)</u>	<u>31,390</u>	<u>(1,737,480)</u>
	<u>\$6,883,215</u>	<u>\$ (259,765)</u>	<u>\$ -</u>	<u>\$6,623,450</u>

NOTE D - RECEIVABLES

Detail of the total receivables at September 30, 2004 is as follows:

Third party insurance	\$ 3,645
Private pay	26,813
Medicaid CMWII	127,942
Substance abuse	20,000
County appropriation	95,648
UPCAP Alzheimers	1,200
Medicare	67,451
Residential	9,485
Other	<u>12,343</u>
	<u>\$ 364,527</u>

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE D - RECEIVABLES (continued)

If the receivable is deemed uncollectible in a subsequent time period, the receivable and the corresponding revenue are eliminated from the accounts. An allowance for uncollectible accounts has not been established. For third party and Medicare receivables an estimated uncollectible percentage has been assigned and these receivables have been reduced by this percentage using the direct write-off method.

NOTE E - INTERFUND RECEIVABLE AND PAYABLE

Individual fund interfund receivable and payable balances at September 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Accrued Sick and Vacation			
Agency Fund	\$ 35,173	General Fund	\$ 35,173
Risk Retention Fund	<u>5,526</u>	General Fund	<u>5,526</u>
TOTAL	<u>\$ 40,699</u>		<u>\$ 40,699</u>

NOTE F - DUE FROM GOVERNMENTAL AGENCIES - STATE

Detail of the "Due from governmental agencies - state" at September 30, 2004 is as follows:

Vocational	\$ 7,612
OBRA	18,847
Block Grants	35,719
Other	<u>26,329</u>
TOTAL	<u>\$ 88,507</u>

NOTE G - RETIREMENT PLAN

A. Plan Description - The Authority participates in two retirement plans. The first plan is a defined contribution plan that was set up as the social security alternative. This plan has a 6.2 percent employer and 6.2 percent employee contribution with immediate vesting. The covered employees under this plan were the employees covered by the MERS retirement program (described later in this footnote) at the time of the vote to stay out of the social security program. All other employees not covered by the MERS retirement program were not eligible for this vote and are still covered under social security. The amount that the Authority contributed to this plan in the fiscal year ended September 30, 2004 was \$294,084.

The second plan maintained by the Authority is administered through the Municipal Employee's Retirement System (MERS). This plan is a defined benefit retirement plan with six divisions.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE G - RETIREMENT PLAN (continued)

The members of the six divisions have the following benefits under MERS:

<u>Division</u>	<u>Benefit</u>	<u>Normal Retire- ment Age</u>	<u>V</u>	<u>F</u>	<u>E</u>	<u>FAC</u>	<u>Member Contri- bution</u>
Chippewa/Mackinac	B-2	60	V-10	F55(20)	-	3	2.0%
Schoolcraft	B-2	60	V-6	F55(20)	-	5	0.0%
Non-union	B-3(80%)	60	V-6	F55(20)	E-2(2.5%)	3	1.0%
Union/Para	B-3(80%)	60	V-6	F55(20)	-	3	1.0%
Professional	B-3(80%)	60	V-6	F55(20)	-	3	1.0%
CEO	B-4(80%)	60	V-6	F55(20)	E-2(2.5%)	3	1.0%

The plan covers substantially all full-time employees. MERS is an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for Michigan Municipal Employees.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

B. Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation and (c) additional salary increases of 0.00% to 4.16% per year, depending on age, attributable to merit and longevity. All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal cost method was used to determine the entries at dis-closure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 827,947
Terminated employees not yet receiving benefits	842,242
Non-vested terminated employees	27,854
Current employees -	
Accumulated employee contributions including allocated investment income	407,888
Employer Financed	<u>5,745,347</u>
Total Actuarial Accrued Liability	7,851,278
Net Assets Available for Benefits at Actuarial Value (Market Value is \$6,623,332)	<u>7,253,615</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 597,663</u>

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE G - RETIREMENT PLAN (continued)

GASB 27 INFORMATION (as of 12/31/03)

Fiscal Year Beginning	October 1, 2005
Annual Required Contribution (ARC)	\$ 396,132
Amortization Factor Used - Underfunded liabilities	
(32 years)	0.051679
- Underfunded liabilities	
(28 years)	0.055889
- Underfunded liabilities	
(26 years)	0.058519
- Overfunded liabilities	
(10 years)	0.119963

C. Contributions Required and Contributions Made - The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll required to amortize the unfunded actuarial accrued liability over 32 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry-age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. The following table provides a schedule of contribution amounts and percentages of recent years.

<u>Valuation Date</u> <u>December 31</u>	<u>Fiscal year</u> <u>September 30</u>	<u>Required</u> <u>Contribution</u>	<u>Annual</u> <u>Percent</u> <u>Contributed</u>
1999	2002	\$ 275,436	100%
2000	2003	276,077	100%
2001	2004	213,288	100%

Notes: Actuarial assumptions were revised for MERS valuations in 1997.

D. Schedule of Funding Progress -

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>(a)</u> <u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>(b)</u> <u>Entry Age</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u>	<u>(b-a)</u> <u>Unfunded</u> <u>(over-</u> <u>funded)</u> <u>Accrued</u> <u>Liability</u> <u>(UAL)</u>	<u>(a/b)</u> <u>Funded</u> <u>Ratio</u>	<u>(c)</u> <u>Annual</u> <u>Covered</u> <u>Payroll</u>	<u>[(b-a)/c]</u> <u>UAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u>
1999	\$4,446,450	\$4,030,340	\$ (416,110)	110%	\$3,257,627	0%
2000	5,193,990	4,887,226	(306,764)	106%	3,402,645	0%
2001	5,992,397	5,523,753	(468,644)	108%	3,938,706	0%
2002	6,294,574	6,457,352	162,778	97%	3,938,735	4%
2003	7,253,615	7,851,278	597,663	92%	3,555,859	17%

Notes: Actuarial assumptions were revised for the 1997 actuarial valuation.

The employer portion of the contribution for the fiscal year ended September 30, 2004 was \$317,504.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE H - DUE TO GOVERNMENTAL AGENCIES - STATE

Detail of the "Due to governmental agencies - state" at September 30, 2004 is as follows:

Advances in excess of expenditures:	
Fiscal year 2003	\$ 45,155
Inpatient services performed for clients	
at State Mental Care Facilities	<u>54,388</u>
TOTAL	<u>\$ 99,543</u>

NOTE I - NOTES PAYABLE

The detail of notes payable as of September 30, 2004 is as follows:

Construction note payable to North Country Bank and Trust. Original approved amount is \$4,000,000. The note is payable in monthly installments of \$19,661, including interest calculated at 6.0%. A balloon payment is due on September 5, 2018. This loan is secured by land and buildings. \$3,208,892

Vehicle loan payable to GMAC Finance. Original loan amount of \$24,975. This loan is payable in monthly installments of \$650 with a zero percent stated interest rate. This loan matures in 2004 and is secured by a vehicle. 1,572

Note payable to Schoolcraft County. Original loan amount of \$480,000. The note is payable in annual installments of \$70,000 including interest. This loan matures in 2015 and is secured by a building. 436,161

\$3,646,625

The activity in notes payable is as follows:

	Balance 10/01/03	Additions	Reductions	Balance 09/30/04	Amount Due Within One Year
Construction note	\$3,243,247	\$ -	\$ 34,355	\$3,208,892	\$ 44,616
Vehicle note	10,023	-	8,451	1,572	1,572
County note	<u>452,440</u>	-	<u>16,279</u>	<u>436,161</u>	<u>18,213</u>
	<u>\$3,705,710</u>	<u>\$ -</u>	<u>\$ 59,085</u>	<u>\$3,646,625</u>	<u>\$ 64,401</u>

Current maturities on the notes payable are as follows:

Fiscal year ended September 30	Principal	Interest	Total
2005	\$ 64,401	\$ 243,107	\$ 307,508
2006	67,743	238,193	305,936
2007	73,084	232,852	305,936
2008	78,892	227,044	305,936
2009	85,213	220,723	305,936
2010-2014	542,628	987,052	1,529,680
2015-2018	<u>2,734,664</u>	<u>609,252</u>	<u>3,343,916</u>
	<u>\$ 3,646,625</u>	<u>\$2,758,223</u>	<u>\$6,404,848</u>

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE J - LEASE COMMITMENTS

(1) The Authority leases a building for use by Harbor Enterprises which utilizes client labor for various services. The lease calls for monthly rental payments of \$1,196 and terminated December 31, 2001. The Authority has a renewable option on the lease for fifteen years. The Authority is presently negotiating with the County of Schoolcraft for the purchase of this building.

(2) The Authority leases a building for use by Emerald Ice which utilizes client labor. The lease calls for payments of \$400 per month and runs through November 30, 2005. The Authority has the option to purchase the property during the period of the lease agreement.

(3) The Authority leases the Germfask Community Building for its Prime-time Day Program for \$400 per month. This lease expires on September 30, 2005.

Minimum future lease commitments are as follows:

<u>Fiscal Ended</u>	<u>Amount</u>
9-30-05	\$ 9,600
9-30-06	800
Total	<u>\$ 10,400</u>

NOTE K - COMPENSATED ABSENCES

All employees of the Authority are entitled to accrue vacation and sick pay. Vacation time is accrued at the following rates:

<u>Years of Service</u>	<u>Vacation Earned</u>	<u>Accrual rate</u>
0-1	2 weeks	1 hour per 26 hours paid
2-4	2.4 weeks	1.2 hours per 26 hours paid
5-9	3 weeks	1.5 hours per 26 hours paid
10-14	4 weeks	2 hours per 26 hours paid
15+	5 weeks	2.5 hours per 26 hours paid

No annual leave shall be accumulated over 200 hours. Vacation time accumulated in excess of 200 hours is paid to the employee, at their current rate of pay, twice a year on the first pay date in June and December. Upon separation of employment an employee shall be paid at their current rate of pay, for all unused annual leave.

Sick leave is accumulated at a rate of 1.25 hours for every 40 straight time hours paid. Sick leave may be accumulated to a maximum of 200 hours. Upon separation of employment an employee with a minimum of ten (10) years of service shall be paid, at their current rate of pay, for 50% of their unused sick leave.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE K - COMPENSATED ABSENCES (continued)

The total accrued sick and vacation at year-end as reported in the Accrued Sick & Vacation Agency Fund was \$322,359, \$287,186 of which was funded.

NOTE L - CONTINGENT LIABILITIES

The Authority participates in State and Federal assisted programs which are subject to financial and compliance audits. The disbursement of funds received under these programs generally requires compliance with specific terms and conditions and is subject to audit by the State or Federal government. Should such an audit occur, certain costs could be disallowed and requested back by the State or Federal government. As of the date of this audit report the Authority was aware of no such liability.

Risk Management - The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Authority joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The Authority pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$25,000 for each insured event.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

REQUIRED SUPPLEMENTAL INFORMATION

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended September 30, 2004

	<u>Budget</u>		<u>Actual</u>	Variance with final budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Federal revenue:				
Block grants	\$ 450,200	\$ 450,200	\$ 400,065	\$ (50,135)
OBRA	57,600	57,600	67,260	9,660
State grants:				
Department of Community				
Health	2,392,344	2,392,344	2,158,651	(233,693)
Substance abuse	40,000	40,000	40,000	-
MRS	3,000	3,000	1,305	(1,695)
Adult benefit waiver	-	180,000	202,175	22,175
Other	1,200	1,200	23,877	22,677
County appropriations	287,000	287,000	287,234	234
Charges for services:				
Medicaid	10,810,939	10,910,939	10,461,938	(449,001)
Medicaid CMWII	190,800	190,800	245,177	54,377
Medicare	40,300	20,300	62,399	42,099
Third party insurance	60,000	60,000	47,300	(12,700)
Client fees - social				
security	220,000	220,000	222,711	2,711
Private pay	4,500	12,500	13,923	1,423
Inter county billing	1,800	1,800	1,269	(531)
MI Child	-	12,000	12,274	274
Other earned contracts	41,000	41,000	24,736	(16,264)
Other:				
Contributions	5,000	5,000	4,943	(57)
Vocational	82,500	82,500	114,632	32,132
UPCAP	17,000	17,000	12,080	(4,920)
DD supported community				
living	104,700	104,700	112,079	7,379
Interest	33,300	33,300	48,979	15,679
Miscellaneous	16,300	16,300	3,338	(12,962)
TOTAL REVENUES	14,859,483	15,139,483	14,568,345	(571,138)
EXPENDITURES:				
Salaries and wages	\$ 5,376,525	\$ 5,392,525	\$ 5,330,056	\$ 62,469
Health insurance	1,257,904	1,257,904	1,041,406	216,498
Life/disability insurance	124,941	124,941	125,395	(454)
Retirement	417,152	330,158	384,625	(54,467)
FICA	117,333	117,327	110,955	6,372
FICA alternative	293,975	293,975	294,084	(109)
Unemployment compensation	21,034	21,034	34,728	(13,694)
Personnel/fringe benefit expense	-	-	17,439	(17,439)
Board per diem	35,000	35,000	33,335	1,665
Board operations	16,800	16,800	19,167	(2,367)
Operating expenses	189,947	264,147	143,259	120,888
Postage expense	17,494	17,494	14,076	3,418
Psychiatrist	475,248	475,248	484,581	(9,333)
Client transportation	133,500	133,500	130,830	2,670
Professional services	344,219	344,219	386,028	(41,809)
Conferences	42,989	47,958	48,140	(182)
Maintenance	10,594	19,597	28,510	(8,913)
Legal and auditing	44,000	44,000	60,904	(16,904)
Staff travel	112,115	125,912	153,222	(27,310)

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the year ended September 30, 2004

	Budget		Actual	Variance with final budget Favorable (Unfavorable)
	Original	Final		
Advertising	\$ 20,860	\$ 20,860	\$ 15,167	\$ 5,693
Insurance - worker's compensation	85,982	85,982	92,512	(6,530)
Insurance - liability & other	20,774	20,774	96,639	(75,865)
Utilities/telephone	316,415	326,408	302,171	24,237
Staff recruitment	20,000	20,000	16,322	3,678
Staff development/training	42,012	42,042	54,275	(12,233)
Staff recognition	4,500	4,500	4,249	251
Membership dues/subscriptions	18,003	18,003	36,495	(18,492)
Capital outlay	35,000	35,000	26,219	8,781
Respite services	132,422	132,422	73,651	58,771
Rent	19,377	19,377	24,984	(5,607)
Inpatient - DD			70,455	
MIA			478,655	
MIC	972,835	972,835	121,042	302,683
HCBW - Santiago			324,992	
Pleasant View			316,669	
Maple			281,210	
Woodview			319,351	
Cedar			284,268	
MIA Residential Type A:				
Chippewa			452,446	
Schoolcraft			32,130	
NTI Day Program	2,155,000	2,155,000	406,833	(262,899)
Other program specific			235,982	
DD Residential Type A:				
Chippewa			128,297	
Mackinac			106,642	
Schoolcraft	547,832	663,832	40,260	152,651
Listening Line Grant	-	-	2,647	(2,647)
Leasing expense	6,003	6,003	8,050	(2,047)
Clinical supplies	24,998	24,998	12,924	12,074
Rental of agency assets	935,865	935,865	918,167	17,698
Ancillary medical	14,998	14,998	19,161	(4,163)
Building expenses	20,623	93,623	96,013	(2,390)
Client emergency housing	4,000	4,000	588	3,412
Local match expense	243,100	243,100	243,128	(28)
Anti-stigma campaign	50,000	50,000	43,099	6,901
Miscellaneous	138,114	188,122	14,897	173,225
TOTAL EXPENDITURES	14,859,483	15,139,483	14,541,330	598,153
EXCESS REVENUES (EXPENDITURES)	-	-	27,015	27,015
Fund balance, beginning of year	942,796	942,796	942,796	-
FUND BALANCE, END OF YEAR	\$ 942,796	\$ 942,796	\$ 969,811	\$ 27,015

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS**

For the year ended September 30, 2004

	<u>Risk Retention Fund</u>	<u>Fixed Asset Replacement Fund</u>	<u>Totals</u>
ASSETS:			
Current assets:			
Cash and equivalents	\$ 916,355	\$ 176,802	\$ 1,093,157
Due from other funds	<u>5,526</u>	<u>-</u>	<u>5,526</u>
TOTAL CURRENT ASSETS	<u>921,881</u>	<u>176,802</u>	<u>1,098,683</u>
Fixed assets, net of accumulated depreciation of \$1,737,480.	<u>-</u>	<u>6,623,450</u>	<u>6,623,450</u>
TOTAL ASSETS	<u>\$ 921,881</u>	<u>\$ 6,800,252</u>	<u>\$ 7,722,133</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Current maturities on notes payable	\$ -	\$ 64,401	\$ 64,401
Long-term liabilities:			
Notes payable	-	3,646,625	3,646,625
Less: Current maturities	<u>-</u>	<u>(64,401)</u>	<u>(64,401)</u>
NET LONG-TERM LIABILITIES	<u>-</u>	<u>3,582,224</u>	<u>3,582,224</u>
TOTAL LIABILITIES	<u>-</u>	<u>3,646,625</u>	<u>3,646,625</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ -	\$ 2,976,825	\$ 2,976,825
Unrestricted	<u>921,881</u>	<u>176,802</u>	<u>1,098,683</u>
TOTAL NET ASSETS	<u>921,881</u>	<u>3,153,627</u>	<u>4,075,508</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 921,881</u>	<u>\$ 6,800,252</u>	<u>\$ 7,722,133</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

For the year ended September 30, 2004

	<u>Risk Retention Fund</u>	<u>Fixed Asset Replacement Fund</u>	<u>Totals</u>
OPERATING REVENUES:			
Asset rental	\$ -	\$ 918,167	\$ 918,167
Risk revenue	<u>4,059</u>	<u>-</u>	<u>4,059</u>
TOTAL OPERATING REVENUES	<u>4,059</u>	<u>918,167</u>	<u>922,226</u>
OPERATING EXPENSES:			
Building repairs and maintenance	-	53,164	53,164
Building supplies	-	6,418	6,418
Building contracted services	-	1,500	1,500
Vehicle repairs and maintenance	-	60,103	60,103
Vehicle operating expenses	-	43,498	43,498
Insurance	-	96,399	96,399
Equipment repairs and maintenance	-	37,622	37,622
Provision for depreciation	<u>-</u>	<u>454,451</u>	<u>454,451</u>
TOTAL OPERATING EXPENSES	<u>-</u>	<u>753,155</u>	<u>753,155</u>
OPERATING INCOME (LOSS)	<u>4,059</u>	<u>165,012</u>	<u>169,071</u>
NON-OPERATING REVENUES (EXPENSES):			
Reimbursements	-	14,506	14,506
Interest income	1,467	8,466	9,933
Interest expense	<u>-</u>	<u>(235,643)</u>	<u>(235,643)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,467</u>	<u>(212,671)</u>	<u>(211,204)</u>
NET INCOME (LOSS)	5,526	(47,659)	(42,133)
Net assets, beginning of year	<u>916,355</u>	<u>3,201,286</u>	<u>4,117,641</u>
NET ASSETS, END OF YEAR	<u>\$ 921,881</u>	<u>\$ 3,153,627</u>	<u>\$ 4,075,508</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS**

For the year ended September 30, 2004

	<u>Risk Retention Fund</u>	<u>Fixed Asset Replacement Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received for rent and services	\$ 966	\$ 918,167	\$ 919,133
Cash payments to suppliers for goods and services	<u>-</u>	<u>(298,704)</u>	<u>(298,704)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>966</u>	<u>619,463</u>	<u>620,429</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Loan payments	-	(294,728)	(294,728)
Acquisition and construction of capital assets	-	(194,686)	(194,686)
Capital reimbursement received	<u>-</u>	<u>14,506</u>	<u>14,506</u>
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>(474,908)</u>	<u>(474,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest earned	<u>1,467</u>	<u>8,466</u>	<u>9,933</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,433	153,021	155,454
Cash and equivalents, beginning of year	<u>913,922</u>	<u>23,781</u>	<u>937,703</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 916,355</u>	<u>\$ 176,802</u>	<u>\$ 1,093,157</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 4,059	\$ 165,012	\$ 169,071
Depreciation	-	454,451	454,451
(Increase) decrease in interfund receivable	<u>(3,093)</u>	<u>-</u>	<u>(3,093)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 966</u>	<u>\$ 619,463</u>	<u>\$ 620,429</u>

See accompanying notes to financial statements.

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

**ACCRUED SICK AND VACATION AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**

For the year ended September 30, 2004

	<u>Balances</u> <u>10/01/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>09/30/04</u>
<u>ASSETS</u>				
Cash equivalents	\$ 288,377	\$ -	\$ 1,191	\$ 287,186
Due from other funds	<u>-</u>	<u>35,173</u>	<u>-</u>	<u>35,173</u>
	<u>\$ 288,377</u>	<u>\$ 35,173</u>	<u>\$ 1,191</u>	<u>\$ 322,359</u>
<u>LIABILITIES</u>				
Accrued sick and vacation pay	\$ 287,186	\$ 35,173	\$ -	\$ 322,359
Due to other funds	<u>1,191</u>	<u>-</u>	<u>1,191</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 288,377</u>	<u>\$ 35,173</u>	<u>\$ 1,191</u>	<u>\$ 322,359</u>

See accompanying notes to financial statements.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

REPORT TO MANAGEMENT

Hiawatha Community Behavioral Health Authority
Manistique, Michigan 49854

We have audited the financial statements of the Hiawatha Community Behavioral Health Authority for the year ended September 30, 2004, and have issued our reports thereon dated January 25, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Hiawatha Community Behavioral Health Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Hiawatha Community Behavioral Health Authority are described in Note A of the financial statements.

Board of Directors
Hiawatha Community Behavioral Health Authority

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Hiawatha Community Behavioral Health Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates.

Useful lives on fixed assets are estimates. They were determined based on historical data with respect to the operating lives of the respective asset.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Hiawatha Community Behavioral Health Authority or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior

Board of Directors
Hiawatha Community Behavioral Health Authority

to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Hiawatha Community Behavioral Health Authority, for the year ended September 30, 2004, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 25, 2005, on the financial statements of the Hiawatha Community Behavioral Health Authority

We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.A.C.

Certified Public Accountants

January 25, 2005

HIAWATHA COMMUNITY BEHAVIORAL HEALTH AUTHORITY

COMMENTS AND RECOMMENDATIONS

September 30, 2004

INTERNAL SERVICE FUNDS

Presently both the internal service fund and the general fund are recorded in the same general ledger. To allow for easier fund analysis we recommend that the internal service funds be recorded in a separate general ledger.

RECEIPT SYSTEM

During our audit of the receipt system we noted that several receipt items in the Sault office were held for several weeks prior to deposit. We recommend that all cash receipts be deposited on a consistent and timely basis.

PAYROLL SYSTEM

1. We noted during our testing of the payroll system that two time sheets out of a sample size of twenty-five had no supervisor's approval noted. We recommend that all time sheets contain a supervisory approval signature to indicate the completion of a payroll review and approval process.
2. During our audit of the payroll system we noted that two individuals out of twenty-five tested had no personnel action forms approving their current rate of pay. We recommend that all pay rates have adequate documentation to indicate the approval of the rate.